Keeping the euro at any cost? Explaining preferences for euro membership in Greece

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Keeping the euro at any cost?
Explaining preferences for euro membership in Greece

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Abstract

Despite years of crisis, the euro is still enjoying strong popular support in many of the Eurozone crisis countries. Given the high costs that the crisis has imposed on these countries, this raises the question why the public thinks so favorable of the union, and under which circumstances these high support levels may decrease. Using original survey data from three consecutive survey waves in Greece (from July, September and December 2015), we analyze why Greeks view the euro so favorably. We use a detailed battery of questions, designed specifically to tap the many explanations given in the literature and public debate for this phenomenon, to tease out the different mechanisms. Using survey experiments, we then specifically focus on the tradeoff between keeping the euro and austerity. We find that as individuals learn that austerity is the price for staying in the euro, their support for the common currency weakens, a trend that we can also observe over time, as support for the euro fell significantly between July and December 2015. Overall, our paper provides an explanation why political elites so far have been able to commit to painful austerity and reforms: they had a clear mandate to everything necessary to stay in the euro. Our results suggest, however, that this may change when the costs of austerity become too high, making an exit for the Eurozone a distinct possibility.

The euro crisis has wreaked havoc across the peripheral countries in the Eurozone. GDP levels dropped significantly in the crisis countries. In 2015, seven years after the beginning of the Eurozone crisis, poverty rates and unemployment were still significantly higher in all of these states than before the crisis, and youth unemployment in particular has soared. Over the crisis, Europeans have become much more negative about the European Union, trust EU institutions less and are more pessimistic about the future of the EU (Eurobarometer, 2016).

Despite this growing euroskepticism, one hallmark of European integration has proven remarkably resilient: the euro. Support for the common currency has been stable across the Eurozone throughout the crisis (see, for example, Frieden, 2016; Hobolt & Leblond, 2013; Hobolt & Wratil, 2015; Roth et al., 2016).[1] Before the Eurozone crisis started, an average of 68% of respondents in the Eurozone supported the European economic and monetary union (EMU) with one single currency, the euro. Since the outbreak of the crisis in 2009, an average of 66% of respondents in the eurozone have been supportive of the euro.[2] Even in those countries immediately affected by the crisis (Cyprus, Greece, Ireland, Italy, Portugal, and Spain) support for the common currency remained high: at the height of the crisis in spring 2012, the average support for EMU ran at 62% in these countries (Eurobarometer, 2012).

This consistently strong support for the euro is surprising if one considers that many experts blame design flaws in EMU as one of the main causes of the crisis and its difficult and slow resolution (see, for example, Copelovitch et al., 2016; De Grauwe, 2016; Hall, 2012). Most importantly, the inability of Eurozone members to devalue their currency – which in this case would mean leaving the eurozone – has pushed these countries to rely on a painful strategy of internal devaluation. As a result, governments in the Eurozone's crisis countries have implemented austerity measures and to a lesser degree structural reforms, bringing hardship for many citizens.

The willingness of governments in these countries to slash expenditures, raise taxes, and implement painful reforms is very puzzling from a political economy perspective. The usual response to similar crises in the past has been to devalue the currency and to default

[1] Note that enthusiasm for the common currency has decreased considerably in countries outside the eurozone.

on the country's debt (Frieden & Walter, 2017). Why has no eurozone country chosen this path? One likely answer is that such a path has been deeply unpopular among voters, even more unpopular than the austerity path chosen instead. But this continued strong support for the euro in eurozone countries raises two key questions: the first one focuses on the reasons for the public's favorable view of the euro: *why do voters in crisis countries support staying in the Eurozone*, even though this has put their countries on the oath of harsh austerity? The second focuses on the sustainability of this support and asks *whether there is a risk that this support could unravel at some point*.

This paper examines these questions using original survey data from Greece, where the fallout from the crisis has been gigantic. Between 2009 and 2014, the country saw its GDP decrease by more than 25%, a figure that exceeds even those found after the Great Depression. The country implemented a vast fiscal consolidation program, resulting in a reduction of the government's budget deficit by 11 percentage points, bringing it below 3% of GDP by 2014 (Nelson et al. 2011). As a result, unemployment escalated from approximately 10% in 2009 to almost 25% in 2013. Nonetheless, even in Greece a majority of respondents has supported EMU and the euro throughout the crisis. Although support has dropped, almost two thirds of Greek respondents continue to view the euro favorably at the time of writing (Eurobarometer, 2016).

We focus on Greece for a number of reasons: not only has this country experienced the largest fallout from the crisis, but it is one in which the question of leaving the Eurozone is no longer a theoretical question. When the Greek prime minister Alexis Tsipras organized a referendum in July 2015 on the conditions imposed by the country's creditors in return for further bailout money, many believed that the referendum was in fact a referendum on Greece's continued membership in EMU (Walter et al., 2016). Across Europe, many observers believed that the Greek vote against the bailout package would lead to "Grexit," Greece's exit from the Eurozone. Within Greece, several Greek politicians, including the former finance minister Yanis Varoufakis, and (fringe) political parties have openly called for leaving the common currency. As a result, the question of keeping the euro or reintroducing a national currency has been a highly salient issue in Greek politics. The public debate about this issue means that voters are likely to be unusually informed about the issue and to have strong opinions about.

We leverage this unique setting by using original survey data that we collected in three waves in Greece: the first survey was conducted one day before the Greek bailout referendum in July 2015, the second two weeks before the Greek parliamentary elections in September 2015 and the third wave in December 2015, when the conditionality agreed on in the agreement on the third bailout package began to bite. These surveys not only contain both survey experiments about the trade-offs inherent in the euro-austerity nexus as well as a detailed battery of questions designed specifically to tap all the many explanations given in the literature and public debate for individual support of the common currency, but also allow us to trace developments over time. As a result, we are able to tease out the different mechanisms explaining support for the euro and for Eurozone exit in this highly relevant case.

Literature

There is by now ample evidence that in the euro area, public support for the euro has remained remarkably strong during the crisis, even though support for the EU as such and trust in EU institutions has declined considerably (Frieden, 2016; Guiso et al., 2016; Hobolt & Leblond, 2013; Hobolt & Wratil, 2015; Roth et al., 2016). Despite this resilience, however, this research finds that the crisis has changed Europeans' assessment of the euro.

Most importantly, existing studies suggest that material considerations have become more important in influencing how Europeans view the euro.[3] Although identity concerns continue to influence preferences for the common currency, Hobolt and Wratil (2015) find they that have become less important relative to utilitarian concerns over the course of the crisis. This is reflected in the finding that higher unemployment rates have become associated with a lower net support for the euro during the crisis, whereas this relationship did not exist before the crisis (Roth et al., 2016). On the individual level, deteriorating expectations about the future personal job situation, household financial situation, and perception of the national employment situation lead to more disenchantment with the euro (Guiso et al., 2016). In the end, the high level of support for the euro might thus simply been driven by the fact that the uncertainty associated with the consequences of exiting the euro, or a Eurozone breakup more generally makes people cling to the status quo, and hence the euro (Hobolt & Leblond, 2013).

[3] For a dissenting view, arguing that ideological concerns dominate, see Bansak et al. (Bansak et al., 2016).

A few studies have taken a more detailed look into individual countries on this question. In Spain, for example, a country that has suffered considerably from the euro crisis, Fernandez-Albertos and Kuo (2016) find that support for the euro is significantly lower among respondents who have personally been negatively affected by the crisis, although they are in fact more willing to accept spending cuts. These individuals are also much more likely to blame the common currency as a cause of the crisis. Overall, however, about three quarters of Spaniards do not list EMU as one of the top three causes of the crisis, an observation that is curiously at odds with the consensus view among economists that the common currency strongly contributed to the crisis (Baldwin et al., 2015). Interestingly, almost half of the respondents showed a strong preference for the unrealistic option of keeping the euro without any austerity measures. Likewise, a survey conducted in Italy in 2014 using conjoint analyses found that Italians are highly opposed to leaving the euro, but are at the same time unwilling to support any policies needed to increase the sustainability of the common currency, including any changes in fiscal policy, giving more budgetary control to Brussels, or moving some fiscal competences to the EU level. (Franchino, 2014). A study about Greece reveals equally puzzling responses, with objection to austerity operating in parallel with support for the euro (Clements et al., 2014). Karyotis et al. (2014) show that at least in part, this seemingly perplexing configuration of preferences is fed by political elites. As the authors demonstrate, in July 2013, when they were still in opposition, SYRIZA and ANEL MPs were much more in favor of cutting austerity even at the risk of leaving the euro than when this suddenly became a real choice for them in the summer of 2015.

Although the existing research has contributed in highlighting the persistent support for the euro in austerity-laden countries, we still lack a coherent explanation of this puzzle. This is mainly for two reasons. First, the cross-national, mostly Eurobarometer-based, studies are very useful because they allow us to compare the support pre- and post-crisis and allow for large-scale analyses across Eurozone and even EU countries. But these analyses stay at a rather general level and do not delve deeply into why support for the euro remains high, especially in crisis countries. Second, the existing focus in the literature lies on preferences for the euro, without investigating how Europeans perceive the trade-off between austerity as the price for staying in the common currency. The studies that exist on this issue (Fernández-Albertos & Kuo, 2016; Franchino, 2014) show that most voters want to "have it all": keep the euro and get rid of austerity. But given that this scenario is highly unlikely, the question arises whether support for the euro will decrease when people increasingly recognize the trade-off. This latter point is a really important one for the future of European integration: When the euro was founded, it was clear to many, including many politicians, that crises would happen and would create huge pressures to push European integration further. Yet, the price may be so high that a complete meltdown also appears possible if support suddenly collapses.

Research Design

To unpack the determinants of euro-support in a context where the question of implementing austerity or getting out of the euro is a highly salient issue, we focus on the case of Greece. Greece is the country that has been hit hardest by the crisis, and also the only country that has actually been close to exiting EMU. Greece is hence a case where respondents are likely to have clear opinions on the euro and the tradeoffs involved in belonging to a monetary union. At the same time, it is a case where conventional political economy models would suggest that public opinion should have long turned against the common currency (e.g. Simmons, 1994).

To study public opinion towards the euro in Greece, we leverage individual-level data from Greece, obtained from three original, nationwide CATI surveys, which we fielded in cooperation with y the University of Macedonia's Research Institute of Applied Social and Economic Studies in Thessaloniki (Greece) between July and December 2015. [4] The first survey, covering 989 respondents, took place on July 4, 2015, just one day before the Greek bailout referendum. The second survey of 1,018 respondents was fielded on September 7 and 8, 2015, less than two weeks before the Greek September 20 parliamentary election. Finally, the third survey was launched between 2 and 6 December 2015, after the first austerity measures of the third bailout package had been implemented. Most of the information used in the paper comes from this third survey, which used a questionnaire tailored to examine the underlying reasons for support for the euro. Apart from including a long list of items to tap the different dimensions driving evaluations about the euro, the

[4] In the first stage (cluster sampling), electoral districts were chosen, in the second stage (stratified sampling) strata within each cluster were identified based on socioeconomic characteristics and finally, in the third stage (SRS), a simple random sample was drawn within each stratum. Because the interviews were done on fixed telephone lines, we get some underrepresentation of the youngest respondents and an overrepresentation of female respondents. We therefore use population weights in our analyses to match the basic demographics of the Greek population.

survey also accommodated two survey experiments, which aimed at explicitly capturing the tradeoff between austerity and the euro.

Armed with these data, we address the two interrelated questions introduced above. The first and more generic question relates to the reasons behind the high rates of approval for the euro. The second relates to the tradeoff between staying the Eurozone and implementing austerity. How elastic is support for the EU to continuing austerity measures? We start with the first question, and first assess the distribution of perceptions about the euro among the Greek population, and then move on to use these items as predictors of euro preferences. We also explore more in detail which mechanisms are more salient for those that perceive themselves to be particularly affected by austerity

In the second part we develop this latter point further and analyse how respondents respond to the austerity-Grexit trade-off. We investigate how an increasing appreciation of this trade-off affects euro preferences across time and across experimental treatments. Our particular interest lies in the group of cross-pressured respondents, experiencing already the consequences of austerity via a significant reduction in their income, while in the same time anticipating high losses under a Grexit scenario.

This strategy allows us to tease out the different mechanisms and to examine support for the euro. In this respect, this work extends recent evidence on how the crisis has boosted the levels of Euroscepticism in Greece (Freire et al., 2014; Verney, 2015) and how it has decreased trust in EU institutions, such as the ECB (Roth et al. 2014, Ehrmann et al. 2013, Wälti, 2012). Rather than looking at the over time change in support for the euro, we try to unpack the reasons for its support, while focusing on the tradeoff between staying in the Eurozone and perpetuating austerity.

Why do Europeans in the Eurozone want to keep the euro?

To understand why so many Europeans continue to view the euro favorably after years of austerity and crisis, we can draw on a large body of research that has investigated why some people view the common currency more favorably than others. This research, which largely originates in the years before the crisis, has suggested that support for the Eurozone is determined by four broad categories of considerations.[5] Which ones dominate

[5] Attitudes towards the euro currency seem to have been more closely linked to overall attitudes towards the EU before the crisis. After the crisis, however, evaluations of the two institutions seem to be less attached to each other (for early and more recent work on euro attitudes see Banducci et al., 2003, 2009, Brettschneider et

during the euro crisis and drive the continuously high support for the common currency in a time when trust and confidence in the EU as such is declining, is an empirical question, however.

Material interests. The first determinant of euro preferences is individuals' material interest. Put simply, those who anticipate greater financial losses as a result of exchange-rate volatility are more likely to oppose to it and thus they are also more likely to favor a common currency. Generally, individuals who work in tradable sectors (Gabel 2000) or that have higher levels of human capital and financial assets (Banducci et al., 2003; Gabel & Hix, 2005) have been more supportive of the euro, as they tend to benefit more from monetary integration. It is important to note that economic self-interest appears to be more important for EMU than for other pillars of the EU integration. In addition to these personal economic concerns, national-level economic factors and collective utilitarian considerations also play a role. Many pre-crisis studies of support for the euro show that, beyond individual features, perceptions about inflation and the strength of the currency, as well as exchange rate fluctuations, correlate strongly with support for the common currency (Banducci et al., 2009; Hobolt & Leblond, 2009). Kaltenthaler and Anderson (2001) argue that individuals project the costs and benefits of euro-membership by making sociotropic evaluations of the economic impact of the common currency on their country.

Not surprisingly, and as discussed above, material interests have also been shown to influence euro preferences during the crisis (e.g., Guiso et al., 2016; Hobolt & Wratil, 2015; Roth et al., 2016). For example, Spanish mortgage holders and high-income earners have been found to view keeping the euro better than the adoption of a national currency (Fernández-Albertos & Kuo, 2016). Likewise, during the Greek bailout referendum, high income earners and older voters, who have benefitted more from the euro and been hurt relatively less from austerity, were much more likely to vote for austerity (i.e., the proposed bailout package) than reject it despite the risk that this might lead to Grexit. In contrast, the "No" option was majoritarian among the young cohorts, which are likely to have invested less in the euro and have been hurt particularly hard by austerity (Walter et al., 2016).

National identity. Non-economic factors are also pivotal. National identity and general attitudes towards European integration can be as powerful in explaining public support for the euro (Banducci et al., 2009). National identity and attachment to the own

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al., 2003, Deroose et al., 2007, Gärtner, 1997, Guiso et al., 2014, Hobolt and Leblond, 2009, 2014, Hobolt and Wratil, 2015, Kaltenthaler and Anderson, 2001).

country tends to be a powerful explanatory factor of rejection of monetary integration (Hooghe and Marks 2004)(McLaren, 2006) and citizens who thought that the EU undermined national sovereignty and democracy were more likely to vote against the euro's adoption (Hobolt, 2009; Hobolt & Leblond, 2009). Jupille and Leblang (2007) argue that these identity and attitudinal explanations play a stronger role in explaining support for the euro than individual material interests.

These two factors –material interests and identity/attitudes- have been persistently found to simultaneously explain support for the euro. However, Hobolt and Wratil (2015) claim that the outburst of the economic crisis has changed the balance between economic and identity explanations, becoming the former more relevant and the latter less important. Because the recent economic crisis and the institutionalisation of austerity has increased the costs of euro membership for many citizens, they argue that voters' cost-benefit analyses are now more relevant than in the past to explain whether they want monetary integration or not. The asymmetric impact of the crisis might have also changed the intensity of the economic calculus of some voters.

Ideology Another factor that has been discussed in the literature is ideology. Positive attitudes towards the EU more generally have been found to translate into support for monetary integration (Banducci et al., 2009). Since EMU is an important part of the European integration project, it is logical to expect that people's perceptions about the EU are associated with their evaluations of the euro. This should be particularly pronounced in times of crisis, because leaving the euro-zone (as opposed to not joining) is often treated as a first step towards the exit from the EU. Indeed, Euroskepticism appears a strong predictor of negative attitudes towards the euro during the crisis, whereas positive views of EU membership help to also retain high levels of support for the EMU (Fernández-Albertos & Kuo, 2016). Left-right predispositions also seem to be particularly important in explaining variation in the reaction among European publics. As Bansak et al. show (2016), the left-right division predicts support for the bailout packages the EU has signed with Greece remarkably well. The mechanism driving this division is difference in expectations of what a Grexit would imply for the euro-zone. For the left, Grexit would pose a significant threat to the EU framework, whereas for the right it would signal a transformation in the European economy that would render it more competitive in the global market.

Institutional Constraints: Finally, a last strand of explanations focuses on the political benefits of belonging to the euro. Because sharing a common currency constrains national macroeconomic room to maneuver, it serves as a commitment device for national politicians. This explanation has been popular in relation with the European Union. In EU post-communist countries, those more dissatisfied with their national democracy and with lower levels of political trust are more likely to support monetary integration into the euro (Allam & Goerres, 2011). More generally, citizens that have worse opinions about their national political institutions will be more likely to be supportive of European institutions (Sanchez-Cuenca 2000). This can explain the traditional high levels of enthusiasm for the EU in Southern European countries that had late transitions to democracy, where corruption is higher and low trust to national politicians has been more widespread.

This argument has been revisited in the context of the euro-crisis, attributing persistent support for EMU to the widespread view that EMU, like the EU in general, generates an institutional framework helps to mediate corruption and increase administrative efficiency in domestic institutions. Guiso et al. (2016) show that support for euro is higher in countries whose governments' are perceived by their citizens to be less effective than Germany and in those countries in which corruption is high and citizens think that this government is unable to control it. In a similar vein, but with regards to Eastern European countries that joined the EU, but are not members of the Eurozone.

In sum, past research suggests several reasons why the euro remains popular even in crisis-afflicted countries. Yet it is less clear which one of these four sets of explanations – material interests, national identity, ideology, or institutional constraints – are likely to matter most. We approach this question as an empirical question and use our survey data to explore which of these explanations matter most in explaining Greek perceptions of the euro.

Operationalization

The approach we follow is to test these different explanations of support for the euro through a battery of questions designed specifically to tap these factors that we fielded in the December 2015 survey. In particular, we used a five-point Likert scale to ask the degree of agreements with a series of statements about the euro (in a scale from 1-fully disagree- to

5-fully agree). These statements directly measure how respondents' respond to explanations that are based on each of the explanations suggested by the literature.

To gauge material interest, and as a way of capturing pocketbook economic perceptions, we ask whether respondents expect a significant reduction in their personal income if Greece leaves the euro (*Less Income*) and whether they expect less austerity (*Less Austerity*) in the case of Grexit. Moreoever, we also ask them to assess the long-term financial impact of Grexit, by using the following item: "*In the long-run, my income will be more stable if Greece stays in the Eurozone*." (*Stable*). Sociotropic economic perceptions are captured by the following statement: "*The fact that Greece grew strongly in the years following the introduction of the euro shows that the euro is good for Greece.*" To tap identity explanations, we asked respondents whether they think that being part of the Eurozone is a signal that Greece is also in the heart of Europe (*Heart Europe*). We also ask whether they think that leaving the euro signifies the beginning of the country's exit from the EU (*End EU*), which captures the concern about domino effects in the event of Grexit. Institutional explanations are tested by asking respondents if they agree with the following two statements: "*Without pressure from the European institutions, the Greek government would not be implementing any reforms*" (*Reform*) and "*Being part of the Eurozone forces Greek policymakers to act more responsibly*." (*Responsible*). Finally, we add a fifth explanation, that has only become relevant during the crisis: The role of uncertainty about the consequences of Grexit. We use the following item: "*Keeping the euro is best for Greece because no one knows what would happen if Greece left the euro*." (*Uncertainty*)

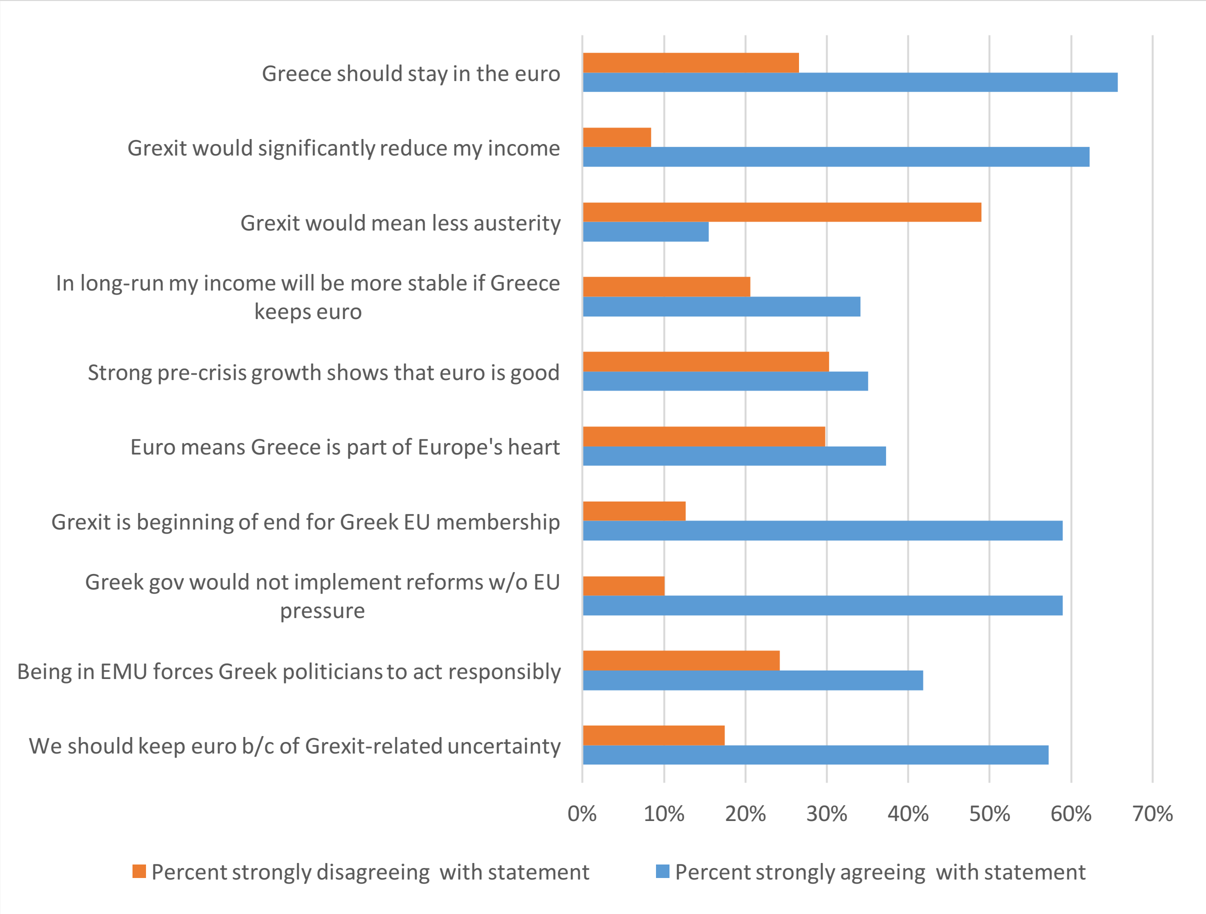
We turn all these variables into dummy variables, where they take value 1 if the respondent fully agrees with the statement. See Table A.1 of for a full representation of these statements and their corresponding variable in our models.

Results

Figure 1 gives an overview about the responses to the different statements about the euro, as well as the question on whether Greece should keep the euro or not from the December survey. The first thing that springs to attention is that the euro still enjoys a considerable support among the Greeks, despite the crisis and the harsh austerity in the country. In our survey, we asked what individuals thought was best for Greece's future: to stay in the euro or to adopt a national currency. A clear majority of about two thirds of respondents (65%) opted for keeping the euro.

Despite this clear verdict, figure 1 also shows considerable variation in support for the different explanations given for this strong support. Descriptively, we can see that four explanations garner very strong support in the Greek population. The most widespread perception is that Grexit would entail a reduction of personal income (62 % of the population agree with that statement). Moreover, a clear majority of respondents agrees that Greece would not implement the necessary reforms without pressure from the European institutions, that Grexit would be the beginning of the end of Greece's EU membership, and that Greece should keep the euro given the uncertainty associated with any other option.

Figure1: Respondents strongly agreeing/disagreeing with different statements about the euro



Other statements are, however, much more contested. Only 15% of the Greeks think that there would be less austerity if the exited the Eurozone, whereas almost half of the respondents believe this to be false. The optimistic respondents are mostly extreme left or right voters that voted for ANEL Golden Dawn, or KKE in September[6]. Likewise, the symbolic benefits of being in the euro, as a symbol of being part of the heart Europe, and the memories of the growth period as a positive consequence of the euro are also arguments not so established in the electorate and less than 40% of the electorate fully agrees with the corresponding statements.

We are also interested, however, in exploring the extent to which these statements can explain support for the euro in the current crisis situation in Greece. To do so, we run a series of logit models, where the dependent variable is currency preference (1- Greece should stay in the euro; 0: Greece should adopt a national currency). Each model includes one of the variables of table A.1 turned into a dummy, alongside a set of control variables[7]. We also add some models that include variables relevant to the potential explanations, but that are not explicitly about the euro: *Left* (which takes value 1 if the individual places himself in a 10 point ideological scale below 5), *Nationalism* (which takes value 1 if the individual fully agrees with the statement "*Contemporary Greeks are successors of the inglorious ancient Greek civilization"*), Unification (which captures whether the respondent agrees with the statement that EU unification has gone too far). This is a typical measure of attachment to the EU. Figure 2 plots the coefficients for each of the variables.

We find that most of the potential explanations taken by themselves are statistically significant and explain the support for the euro to some extent. However, when we compare them to each other, some of the very common arguments among the Greek public are not so decisive in explaining an individual's support for the support. For instance, the argument that Greece needs the pressure of European institutions to implement the necessary reforms is very popular in the Greek debate, but believing this does not seem to be as decisive to explain whether someone supports the euro or thinks that Greece should adopt a national currency.

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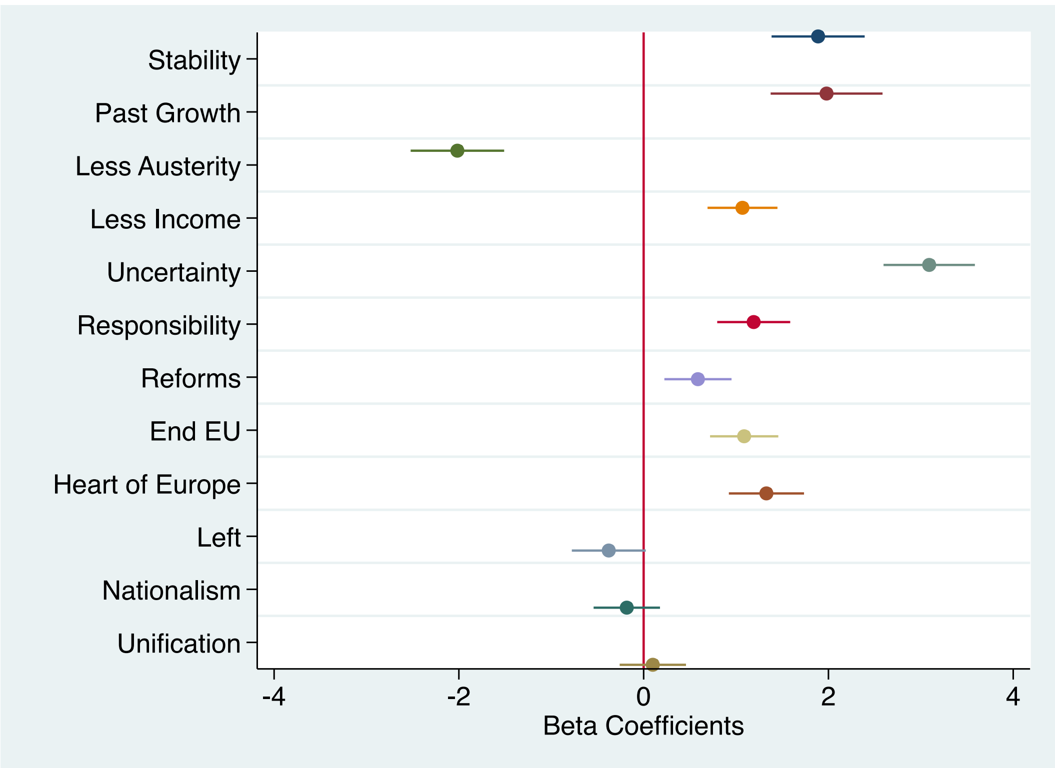
[6] Perhaps surprisingly, only 15% of Syriza voters fully agree with this statement, which is the same proportion than in the general population. This possibly means that Syriza's efforts to justify their final agreement with the Troika, which initially was rejected by most of their voters in the Referendum on July 5th, have been successful in shaping the public's perception as the best of all alternatives.

[7] We control for age, gender, education, type of region (urban/rural), evaluation of the government, and party voted in the September 2015 election.

Among the most relevant factors explaining support for the euro in the general population appears to be risk-aversion considerations. Believing that Greece faces many uncertainties outside the Eurozone, is the strongest reason for many voters to prefer the euro against a national currency. Likewise, the perception that incomes are more stable within the Eurozone is also on of the most relevant explanations. And only the minority of those, who believe that leaving the Eurozone would be associated with less austerity are more likely to favor an exit from the common currency. These three explanatory facts point to the security of the Eurozone, despite the cost in terms of austerity that we will analyze in more detail below, against the leap in the dark that Grexit could mean as one of the main reasons why support for the euro has remained high in Greece. In addition, the perception that growth in the past was a consequence of the euro is not a prevalent perception in the Greek population, but those that believe so are very likely to still support the euro today.

Figure 2: Beta coefficients of perceptions about the euro (Logit models, DV: Preference to stay in the euro)



How does austerity affect support for the euro?

The last section showed that the euro continues to enjoy considerable support in Greece. This is a surprising finding in light of the severity of the crisis the country has gone through, but less of a surprise if one considers our finding that the euro's appeal stems not only from material considerations but more from risk aversion and, for those vulnerable to the austerity implemented through the MoU, political and institutional considerations. Nonetheless, the severity of the crisis and the fact that key problems underlying the Greek crisis remain unresolved, a question of equal theoretical and practical relevance is whether this high level of support for the euro in Greece is sustainable.

This question is relevant in theoretical terms, because the strong support for the common currency is surprising in light of previous research on fixed exchange-rates, that shows that voters tend to prefer the ability to target domestic economic problems over exchange-rate stability (Bearce & Hallerberg, 2011; Sattler & Walter, 2010). Past research has shown that this preference is particularly strong in times of crisis, where the policies required to sustain a fixed exchange rate usually come at the cost of high unemployment, fiscal austerity and painful structural reforms (Eichengreen, 1996; Simmons, 1994). Under these circumstances, countries facing serious crises in the past have only opted to retain a fixed exchange-rate regime when it was relatively easy for them economically and politically to implement the alternative to devaluation (Walter, 2013). This alternative, a strategy called “internal devaluation” or “internal adjustment,” implies that austerity and structural reforms are implemented to depress prices and to regain competitiveness (Shambaugh, 2012). The theoretically interesting question is, how people trade-off the costs of austerity and devaluation and where the breaking point is when both the costs of internal adjustment (i.e., austerity and structural reforms) and the costs of external adjustment (i.e., a devaluation of the currency) are very high, such as in most of the crisis countries in the Eurozone (Walter, 2016).

The question about the sustainability of euro-support in Greece also carries a lot of practical relevance, because it is directly related to the probability of “Grexit,” and hence the possibility of a breakup of the Eurozone. Being part of a monetary union has made the Greek crisis experience much harsher and more difficult than normal, given that the standard response to similar debt and balance-of-payments crises – devaluation, and to a lesser degree default – are not available in a currency union (e.g., Frieden & Walter, 2017; Stiglitz, 2016). The main reasons for this policy path, which in other circumstances would probably be considered as suicidal, have been that the costs of leaving the eurozone are likely to be huge for any member of the common currency (Eichengreen, 2010) and that public support for the euro has been very strong throughout the crisis. But as the costs of austerity-driven crisis resolution within the EMU-context mounts and without much hope for a considerable improvement in the Greek economy in the near-to-medium future, the question whether there is a breaking point in which the political and economic costs of staying in the Eurozone outweigh the political and economic costs of leaving (O'Rourke & Taylor, 2013). Because public opinion is going to be an important part of the political costs of such a move, understanding how Greeks view the austerity-Grexit trade-off is central to gauging to the risk of a Eurozone breakup.

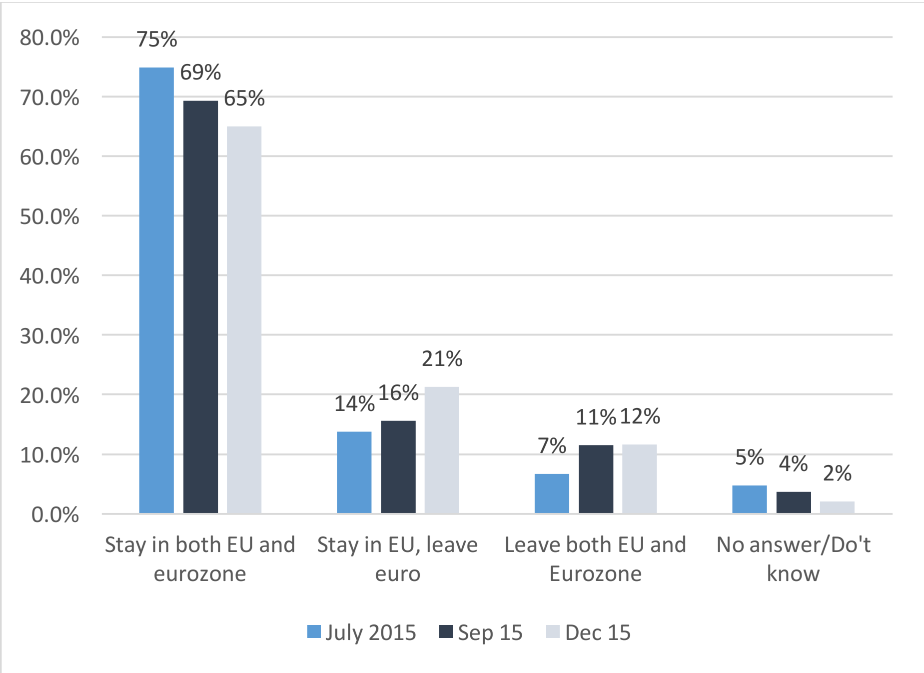
To investigate this question, we proceed in three steps. First, we take a temporal perspective and analyze how public opinion has evolved during a time period where the austerity-Grexit trade-off became particularly transparent. Second, we leverage experimental evidence about this trade-off. Both analyses show that Greeks become less supportive of the euro as they become more aware that the cost of staying in the euro is more austerity. Third, we look at individual expectations and vulnerability profiles and show that most Greeks are vulnerable to both austerity and Grexit, making crisis resolution particularly painful and politically difficult.

Euro Support over time

Our three public opinion surveys cover a phase in the Greek crisis during which the austerity-Grexit trade-off became particularly transparent (July-December 2015). In January 2015, Alexis Tsipras and his populist left party SYRIZA had won the elections on a platform that promised to end austerity while keeping Greece in the Eurozone. True to this promise, the government engaged in negotiations with the international and European institutions overseeing Greece's bailout program to renegotiate the terms of the bailout program. When these negotiations failed to result in meaningful debt relief and an easing of conditionality, Tsipras played his hand to the fullest and called a referendum on the bailout package in the hope of forcing creditors to agree to a package that would lead to less austerity in Greece. Hopes were high in Greece that a vote against the existing bailout package would indeed achieve this goal. Even though many observers and policymakers in Greece and abroad warned that a vote against the package would lead to Greece's exit from the Eurozone, a majority of voters believed that a no-vote would not endanger Greece's membership in EMU but would instead improve the country's bargaining position (Walter et al., 2016).

Given the widespread belief, that Greece's Eurozone membership and an easing of austerity were not incompatible, it is not surprising that support for the euro was strong among the Greek public on the eve of the bailout referendum. Figure 4 shows that going into the referendum (our poll was conducted on July 4, one day before the referendum), a large majority of three quarters of our respondents stated that if they could choose, they would want to keep the euro and stay in the EU.

Figure 4: Development of attitudes towards Eurozone and EU membership, July - December 2015



But over the following months this support fell considerably. This is not surprising, because the aftermath of the referendum made it clear that there was in fact a trade-off between austerity and Grexit. In the post-referendum negotiations, Greece had to agree to a third bailout package that included once more harsh austerity measures. The alternative to accepting these terms, it became very clear, was Greece's exit from the Eurozone. Faced with this experience, support for the euro declined by 10 percentage points within only six months, even though a majority continued to support EMU membership (see figure 4). This suggests that as the tradeoff became more obvious, the euro became more unpopular.

Experimental evidence about the austerity-Grexit trade-off

Second, we ran a survey experiment in the July and December survey waves designed to examine how voters respond when explicitly confronted with the Austerity-Grexit tradeoff. For this purpose, we randomly assigned respondents into three groups. The control group was asked “Personally, which of the following do you think is best for Greece’s future?” In the two treatment groups, we added information that staying in the euro required more austerity, and varied the time frame for that austerity. Specifically, treatment one read “Observers say that staying in the euro requires more pension cuts and tax increases for the next months. Personally, which of the following do you think is best for Greece’s future?”, whereas Treatment 2 took a medium-term perspective and stated “Observers say that staying in the euro requires more pension cuts and tax increases for the next 4-5 years. Personally, which of the following do you think is best for Greece’s future?” All respondents had to choose from the same answer categories: “Stay in the euro” or “adopt a national currency.”

Figure 5: Survey Experiment about the Austerity-Grexit Tradeoff, July and December 2015

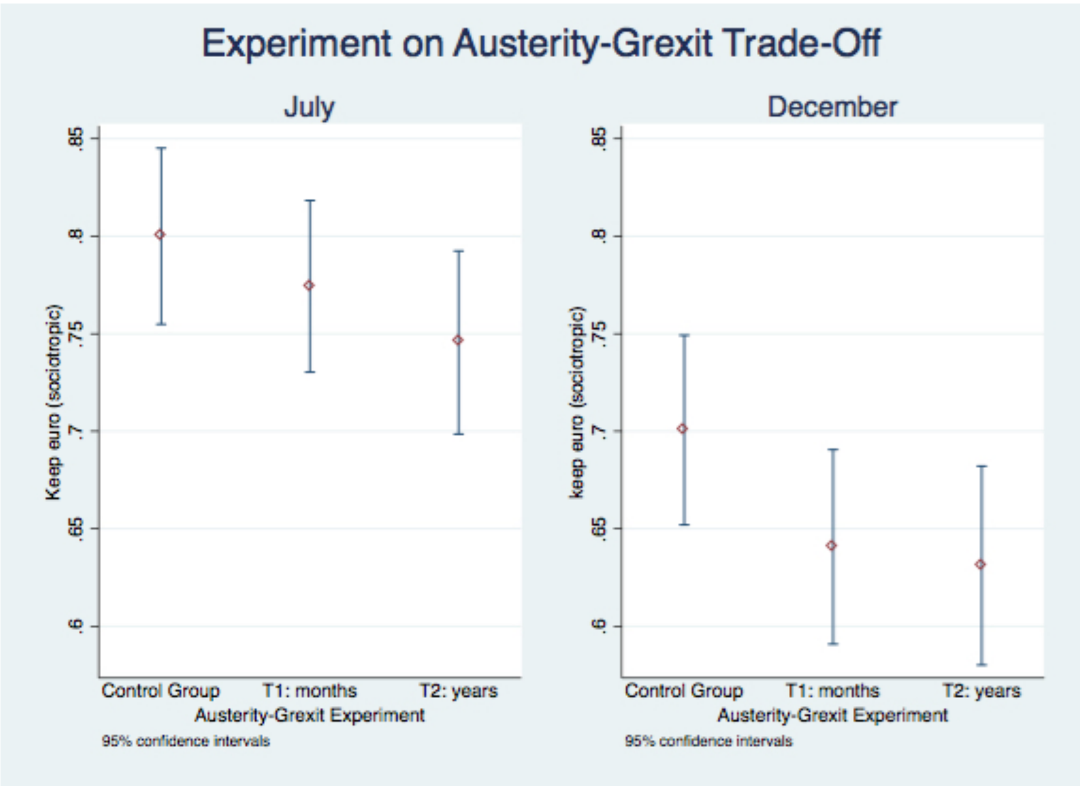


Figure 5 and Table 1 show the results of the survey experiment for the July and the December waves. In line with the temporal evidence we presented, we find that overall support for the euro was significantly lower in December 2015 than before the referendum in July 2015. Nonetheless, in both waves those respondents that received the information that the cost of keeping the euro was either months (T1) or 4-5 years (T2) of more fiscal austerity, were less likely to support the euro.

Table 1: Effects of the austerity-Grexit experiment on preferences for keeping the euro (logit analyses)

	JULY			**DECEMBER**		
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment 1: months	-0.162	-0.159	-0.238	-0.284	-0.275	-0.167
	(0.211)	(0.216)	(0.228)	(0.175)	(0.180)	(0.187)
Treatment 2: years	-0.311	-0.354*	-0.511**	-0.252	-0.224	-0.165
	(0.209)	(0.213)	(0.228)	(0.176)	(0.181)	(0.188)
Age		0.273***	0.188***		0.024***	0.021***
		(0.065)	(0.065)		(0.005)	(0.006)
Education Level		0.034	0.017		0.171***	0.167***
		(0.096)	(0.050)		(0.053)	(0.058)
Female		-0.070	-0.026		-0.239	-0.150
		(0.172)	(0.183)		(0.147)	(0.155)
No-Vote Referendum			-1.713***			-1.389***
			(0.208)			(0.157)
Constant	1.292***	0.185	1.739***	0.828***	-1.053**	-0.204
	(0.157)	(0.657)	(0.503)	(0.128)	(0.457)	(0.493)
Observations	989	989	989	1050	1049	1049
F	1.107	4.653	14.839	1.539	6.395	17.274

Note: Data are weighted. Dependent variable is a dummy variable coded 1 if respondent would like to stay in the Eurozone.

There are also some interesting differences between the results from the July and the December waves. Most importantly, although the treatments have the expected negative effect in all cases, only the strong trade-off treatment (focusing on years) had a statistically significant effect on euro preferences after controlling for demographics, and only in the July survey. One possible explanation is that as the trade-off became widely apparent throughout the second half of 2015 in Greece, a simple framing experiment became too weak to influence preferences on this highly salient and widely discussed topic.

Individual vulnerability profiles and ways forward

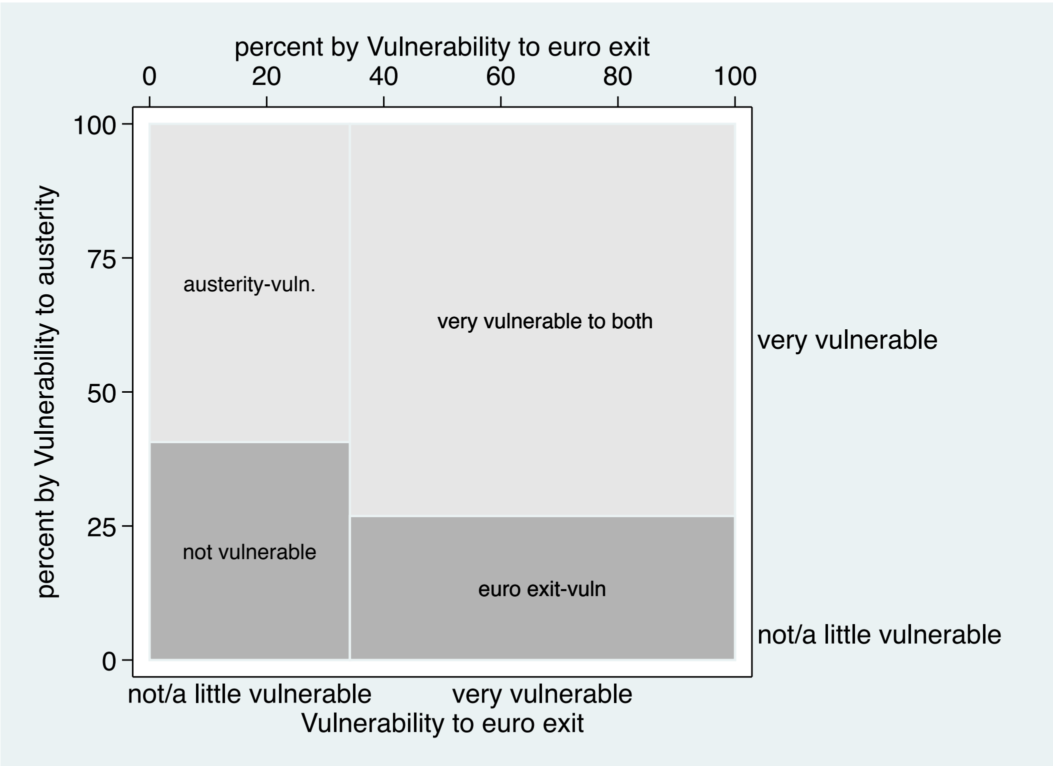
How do individuals perceive the austerity-Grexit trade-off in terms of their personal economic situation? Past research (Walter 2013, 2016) has shown that the costs of austerity vs costs of devaluation (in Greece's case, euro exit) are not distributed equally across societies and that the relative costs of these measures matter a great deal in influencing individual's preferences about different crisis resolution strategies. The preferred crisis resolution strategy is clear for those individuals who are vulnerable to only one type of adjustment: those vulnerable to austerity, but not to euro exit will prefer the latter, and vice versa.

For those individuals, however, who are vulnerable to both, the situation is much more difficult. These individuals find themselves between a rock and a hard place: No matter how the government tries to resolve the crisis, they will be hurt. Crisis resolution in countries where a majority of voters exhibits such a "vulnerability profile" tends to particularly painful and politically difficult. Policymakers in these contexts fight nail and tooth to avoid any serious reforms as long as possible. Crisis management in these countries is difficult: political turmoil and public protests abound. Reforms are delayed. Support from outside, typically the IMF, is usually called in to cover the financing needs that the lack of resolute crisis management generates. And when policymakers cannot avoid implementing reforms in return for this outside support, they usually design these reforms in ways that shield their core voters and targets those that are politically least influential (Walter, 2016).

We can use our data from the December 2015 survey to explore the vulnerability profiles of Greek voters. To construct the vulnerability profiles we relied on two questions, which asked how respondents assessed the consequences of the reforms agreed on in the memorandum for the third bailout package (i.e., further austerity) and the consequences of Greece leaving the euro, respectively, on their personal income. Respondents who fully agreed with the statement that each of these policy paths would lead to "a significant reduction in [their] personal income were coded as very vulnerable to the respective strategy. It is noteworthy that for both policy options about two-thirds of respondents classified themselves as very vulnerable.

By combining these answers, we can code the vulnerability profiles of respondents. Figure 6 shows that the majority of Greeks (at least subjectively) find themselves in the very difficult position of being very vulnerable to both further austerity and a Greek exit from the Eurozone. Almost half of all respondents (47%) fall into this category.[8] But there are also some respondents who view themselves as not vulnerable to any of these options (14%), or only vulnerable to one of these options (21% who are vulnerable to austerity, but not Grexit, and 18% who are vulnerable to Grexit, but not austerity).[9]

Figure 6: Vulnerability profiles of Greek respondents



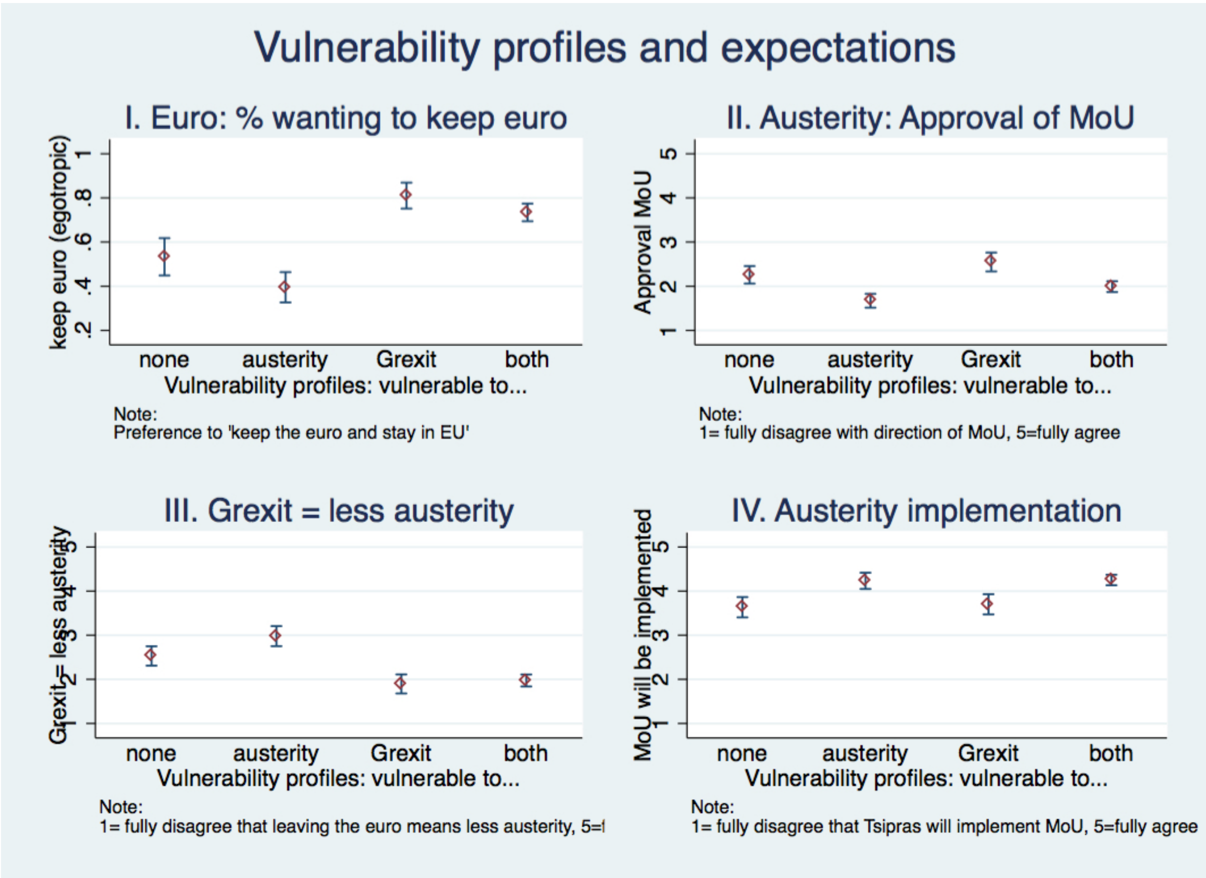
Note: Respondents who fully agree with the statement "I expect a significant reduction in my personal income if Greece fully implements the reforms agreed on in the memorandum" are coded as very vulnerable to austerity, those fully agreeing to the statement "I expect a significant reduction in my personal income if Greece leaves the euro" are coded as very vulnerable to euro exit.

[8] If we include those who somewhat agree that each policy would lead to significant income losses for them, almost two thirds (65%) of respondents exhibit this vulnerability profile.

[9] The respective numbers for the broader definition of vulnerabilities are 6% (none), 15% (only austerity) and 14% (only Grexit).

Not surprisingly, different vulnerability profiles are also associated with differences in respondents' policy preferences and expectations. Most noteworthy is that the policy preferences of those with a vulnerability to both austerity and Grexit tend to be incompatible: Figure 7 shows that they want to keep the euro (panel I), but are opposed to the austerity measures agreed to in the third bailout package (panel II). In essence, they are fighting the austerity-Grexit tradeoff. In contrast, those vulnerable to only one adjustment path tend to exhibit more consistent preferences. At the same time, those with a strong joint vulnerabilit are also disillusioned: they are rather pessimistic that leaving the Eurozone would imply less austerity (panel III) and are relatively convinced that Tsipras will implement the austerity measures agreed with the Troika (panel IV).

Figure 7: Vulnerability profiles, policy preferences, and expectations



Overall, figure 7 shows one reason why crisis resolution has been so difficult and slow in Greece: with almost half the population vulnerable to any changes, serious reform is likely to be hugely unpopular and politically costly.

Conclusion

Although doomsayers have predicted the demise of the euro since the outbreak of the eurozone crisis, the common currency has so far proven remarkably resilient. Neither piecemeal reforms nor harsh austerity measures in the crisis countries have led to a breakup of the Eurozone, or an exit from a single Eurozone member. The consistent and strong support for the euro among voters throughout the eurozone has played a key role in this respect, because it has made governments willing and able to implement policies that conventional political economy accounts would have classified as politically suicidal. Maintaining public support for the common currency is thus a key requirement for the sustainability of EMU.

To examine why the euro is so popular among Europeans in the Eurozone, and whether this support could unravel at some point, this paper has focusing on Greece, the country that has suffered most during the crisis. Using original survey data, we showed that uncertainty and risk aversion might play a special role in why Greek citizens have continued supporting being part or the Eurozone, despite the austerity measures to be implemented with the latest MoU. Honing in especially on the trade-off between keeping the euro and reducing austerity, our analysis showed that the events surrounding the 2015 bailout referendum, which demonstrated clearly that euro membership could not be had without austerity, significantly reduced the popularity of the common currency, even though a majority of Greeks continues to support it. Yet it is less enthusiasm for the euro, but fears about the consequences of a "Grexit" that fuel this support. As the costs of austerity rise, however, Grexit becomes more attractive – or less scary - to voters. This suggests that it is indeed possible that a tipping point might be reached at some point, in which Greeks start to opt for an uncertain future outside the euro over a future within under certain and long-term austerity.

Overall, our paper provides an explanation why political elites so far have been able to commit to painful austerity and reforms: the strong public support for the euro gave them a clear mandate to everything necessary to stay in the euro. This finding is relevant for the debate about the "democratic legitimacy" of the imposed austerity policies, which several authors find lacking (e.g., Armingeon & Guthmann, 2014; Armingeon et al., 2016; Scharpf, 2013). Our research suggests in contrast, that the path chosen may not have been without any democratic legitimacy after all: given that the alternative to austerity, euro exit, is so deeply unpopular among the public, it seems that the path chosen was still in line with voters' preferences.

Nonetheless, our results also suggest that this could change when the costs of austerity become too high, making an exit for the Eurozone a distinct possibility. Although the political elites so far have had a clear mandate to everything necessary to stay in the euro, the incentives for the elites will change when the public starts preferring a Eurozone exit to further austerity.

This latter point is a really important one for the future of European integration: When the euro was founded, it was clear to many, including many politicians, that crises would happen and would create huge pressures to push European integration further. Yet, the price may be so high that a complete meltdown also appears possible if support suddenly collapses

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Table A.1: Statements on the euro

Statement	***Variable***
Economic considerations	
The fact that Greece grew strongly in the years following the introduction of the euro shows that the euro is good for Greece.	*Past Growth*
Leaving the euro would mean that Greece would have to implement less austerity measures.	*Less Austerity*
I expect a significant reduction in my personal income if Greece leaves the euro.	*Less Income*
In the long-run, my income will be more stable if Greece stays in the Eurozone	*Stability*
Keeping the euro is best for Greece because no one knows what would happen if Greece left the euro.	*Uncertainty*
Political considerations	
Without pressure from the European institutions, the Greek government would not be implementing any reforms.	*Reforms*
Being part of the Eurozone forces Greek policymakers to act more responsibly.	*Responsibility*
Attitudes towards Europe/EU	
Being part of the Eurozone shows that Greece is part of the heart of Europe.	*Heart of Europe*
Leaving the Euro is the beginning of the end for Greece'smembership in the EU	*End EU*